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DIRECTORATE OF
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Cambodia: Current Situation



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Cambodia: The Communists are maintaining pressure on scattered government positions in the west.

The government's military training base at Romeas in Kompong Chhnang Province was attacked again yesterday. Despite heavy air strikes, the Communists are reported to be holding the market and railway station. The regional military commander has ordered two battalions--one a Khmer Krom battalion--to Romeas from Kompong Chhnang city.

New enemy attacks were also reported in several areas of Kompong Speu Province. Government forces at Kirirom apparently were still in contact with Communist troops, but no new details are available on the fighting there.

In the Countryside

Criticism of the way Lon Nol is handling the war effort has been raised by In Tam, President of the National Assembly and chief of Kompong Cham Province. He recently told [redacted] that Lon Nol errs in emphasizing the defense of Phnom Penh and other large cities to the detriment of conditions in the countryside. Tam was particularly concerned that battalions were being pulled out of Kompong Cham to defend the capital, a move he believed would cause the government to lose rural support.

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Back Home from Bangkok

Lon Nol has told the US chargé in Phnom Penh that he thought his talks with Thai leaders in Bangkok had gone extremely well. He did not specify any precise results of the talks, however. Restrained public comments by Thai leaders on their sessions with Lon Nol indicate Bangkok is still hewing to its cautious approach to the Cambodian situation.

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South Korea - Japan: Seoul and Tokyo both appear pleased with the outcome of the fourth annual ministerial meeting which closed in Seoul yesterday.

Although the joint communique pays lip service to a wide variety of bilateral and regional issues, the negotiations appear to have been largely devoted to economic cooperation. According to the South Koreans, Seoul offered to conclude an industrial property settlement and maritime transportation agreement. In return the Japanese promised preferential tariff treatment for Korean goods and financial aid for the construction of four heavy industrial plants and for a number of lesser projects. In addition, Tokyo agreed to move ahead with a previously promised loan for \$50 million to develop South Korea's shipping industry.

The Japanese reportedly agreed in principle to most of what the Koreans requested, with the proviso that specifics will be negotiated later. Difficulties are likely to arise when the two eventually get around to haggling over these, but in the meantime the Japanese have gained considerable favor with the South Koreans at no immediate cost. Seoul, for its part, can cite the agreement as compensating for revenue losses that will stem from the planned cutback in US forces in Korea.

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Egypt: President Nasir has officially accepted the US peace proposals but indicated he has doubts concerning US and Israeli intentions.

In announcing his acceptance yesterday of the US initiative, Nasir declared there was nothing new in the US proposals; they merely provided for the implementation of the November 1967 Security Council resolution which Cairo had already accepted. He said that the 1967 resolution provides for Israel's total withdrawal from all occupied Arab territories and also allows the Palestinians to obtain their rights in accordance with other UN resolutions. In any case, the Egyptian leader said, the US initiative was "little more than a process of procedures" which he does not think "will achieve anything new due to Israel's stand."

In recounting the military situation in the Middle East since the June 1967 war, Nasir blamed Washington for Israel's intransigence and aggressiveness. He said there has been complete military collusion between the US and Israel. The Egyptian leader charged the US with supplying the most modern arms to Tel Aviv while seeking to prevent Egypt from obtaining comparable Soviet arms. He said the US had threatened to unleash an all-out Israeli air campaign against Egypt earlier in the year if Cairo did not accept a cease-fire agreement.

Nasir said he wasn't very optimistic concerning a Middle East settlement and believes that what has been taken by force can only be regained by force, but added that he was willing to see if political action could break the present Arab-Israeli impasse. Nasir said his doubts about the sincerity of the US is evidenced by the false US allegations that Cairo wants war merely for the sake of war, and that in any event Egypt would continue to build up its armed forces.

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Algeria: The long-awaited cabinet reshuffle announced earlier this week involves no change in policy or priorities.

Boumediene continues in the dual capacity of prime minister and minister of defense in a council that has been enlarged from 19 to 23. Key ministries remain unchanged except for finance and planning, which has been split.

The Finance Ministry is now headed by an influential Algerian economist who has long served as an adviser to Boumediene; the planning function will be taken over by a secretary of state. The finance-planning portfolio has been vacant since last March, when Cherif Belkacem was relieved for reasons of health. Belkacem, one of the inner circle around Boumediene, returns to the cabinet as minister of state.

Other changes include dividing the Ministry of Education in two, relieving two ministers for non-cabinet duties, shifting five other ministers, and adding five more--in addition to the new finance minister.

Contrary to speculation among political observers in Algiers, Ahmed Kaid, chief of the country's only political party and another member of the inner circle, did not return to the government. He presumably will continue his attempts to revitalize the nearly moribund National Liberation Front in preparation for a promised party congress and parliamentary elections.

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Algeria: The government's unilateral action in raising the taxes of French oil companies is designed to generate additional funds for the country's economic development.

Algeria raised the price of oil that it uses as a basis for tax payments by 77 cents a barrel. This would increase Algeria's oil revenues by nearly 50 percent, while the profits of the companies would fall about two thirds to 20 cents a barrel. French companies produce about 70 percent of Algeria's annual output of crude oil.

This move is the second attempt this summer to force French concessions in a forthcoming comprehensive review of the 1965 Franco-Algerian oil accord. Earlier this month, authorities required French firms to retain about 80 percent of their oil export revenues in Algeria instead of 50 percent as in the past.

Under the 1965 accord, the tax reference price can be modified only by joint action of the two governments and any disputes are to be submitted for arbitration. France, which is resisting the new price hike, may seek to initiate such procedures.

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Chile: The Communists reportedly are dickering with the Christian Democrats for an electoral runoff deal.

Each group, [redacted] hopes to line up enough congressional votes to ensure success for its candidate in case the presidential election of 4 September must be decided by the legislature. Under the Chilean constitution, a joint session of congress must choose between the two top contenders if, as is likely, no candidate wins a majority in the popular election.

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The three presidential candidates are independent conservative Jorge Alessandri, Christian Democrat Radomiro Tomic, and Marxist Salvador Allende. Many Chileans find none of the three appealing and may not settle on their choice until the last moment.

Of the 200 legislators, 82 represent parties making up the Popular Unity coalition backing Allende, although he probably can count on only 76 of these. The governing Christian Democrats have 75 legislators and Alessandri, now considered the front runner, has the support of only 43.

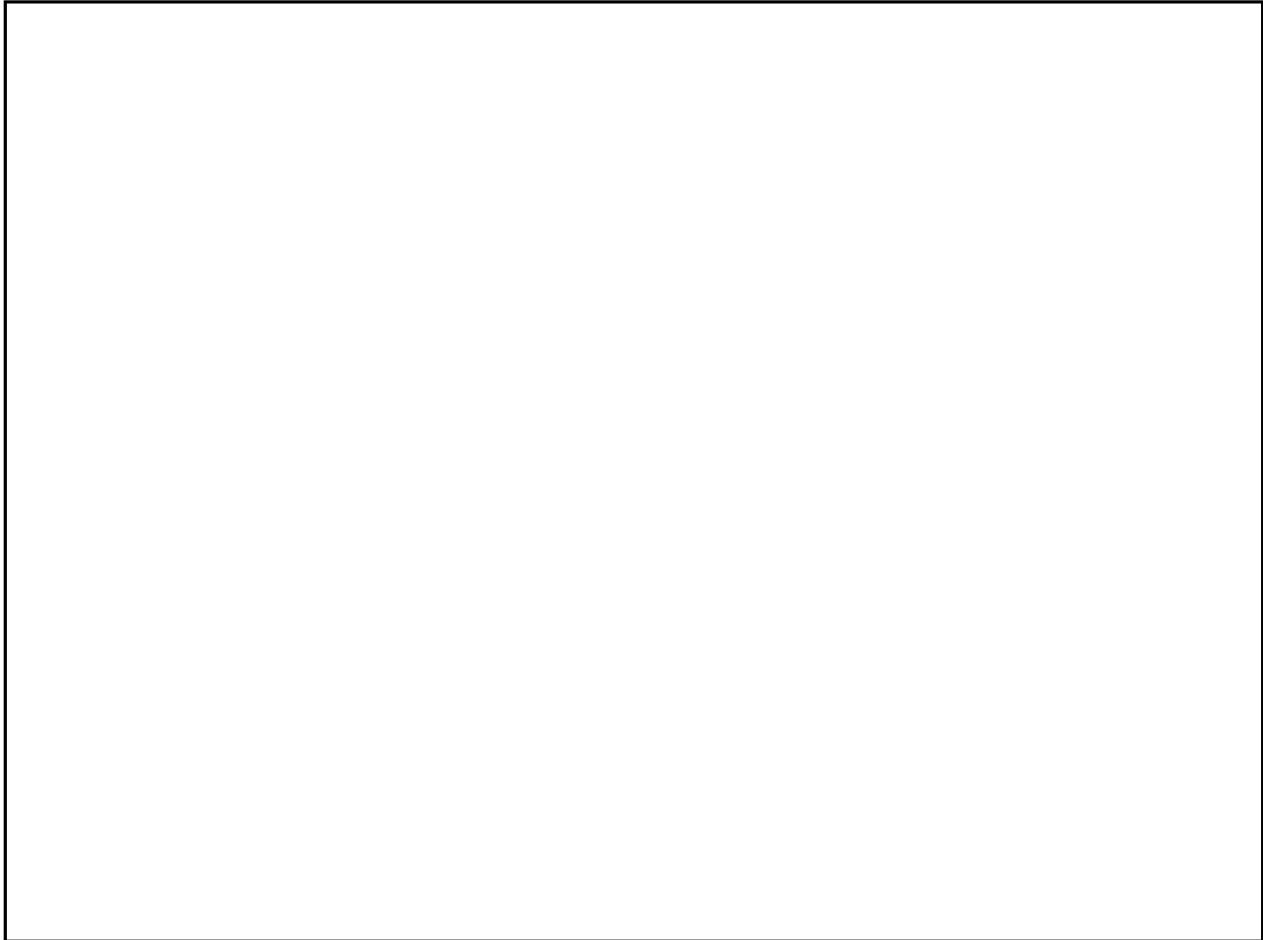
In the context of Chilean politics--Marxist parties received 28 percent of the vote in last year's congressional elections--discussions like those under way are the rule rather than the exception. The race is expected to be close, which will cause bargaining for congressional votes to intensify as the election approaches. [redacted]

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NATO-Greece: The Danes have blocked, at least until September, consideration of the Defense Planning Committee's report recommending the strengthening of local Greek forces. Greek Prime Minister Papadopoulos, in talks with US officials, agreed to the delay, but warned that because of Denmark's "attempted interference" with internal Greek affairs, there would be no further constitutional liberalization until after the report is approved. A confrontation on the question has thus been avoided for the time being, but by September Copenhagen could be under even more domestic pressure to block the report. [redacted]

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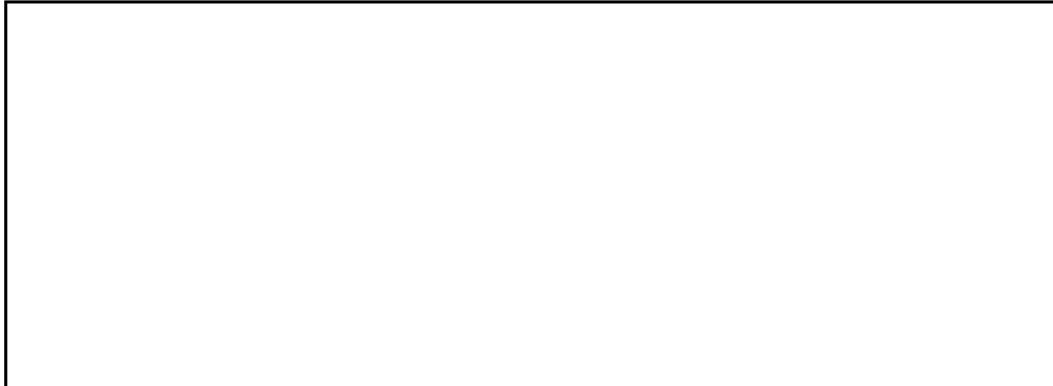
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Greece: Career diplomat Christos Xanthopoulos-Palamas, sworn in Wednesday as undersecretary in the Foreign Ministry, will have little influence on policy until he proves his loyalty to the regime.

Prime Minister Papadopoulos personally assumed the Foreign Ministry portfolio, probably to placate those regime members who believe Palamas did not defend the regime vigorously enough while serving as ambassador to the US in the late 1960s. Palamas is eminently qualified to represent Greece in foreign affairs, however, having served as representative to NATO and at the UN. The new undersecretary has expressed moderate views on the Cyprus question, and has demonstrated his ability to work well with foreign diplomats, including the Turkish representative to NATO. [redacted]

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Bulgaria-Algeria: Sofia has extended a \$40-million long-term credit for Algeria's current four-year economic development plan (1970-73). According to earlier discussions, the credit will be used for various industrial and agricultural projects, including the development of petroleum resources. Even if the loan is drawn over the plan period, it will not boost trade sufficiently for the two countries to reach their announced \$60-million trade goal by 1973. Last year Bulgarian-Algerian trade totaled only about \$10 million. [redacted]

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Ceylon: The new government may be planning to nationalize the bunkering facilities of Shell, Esso, and Caltex. In a letter to shipowners on 14 July, the state-owned Ceylon Petroleum Corporation (CPC) offered to meet their bunkering needs and claimed that it intended to take over the entire bunkering market shortly. The Ceylon managers of Esso and Caltex have not yet received formal notification of such a step, however, suggesting that the CPC may be trying to force the government to act. On the other hand, Mrs. Bandaranaike could be using the CPC, one of the most leftist of Ceylonese state corporations, to repeat the pattern of extensive press coverage, followed by official silence, and then eventual government action that was established in the recent ouster of the Peace Corps and the Asia Foundation. [redacted]

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